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SENSITIVE

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SUBJECT: NO SURPRISES IN TANZANIAN BUDGET SPEECH

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1. (SBU) Summary: Finance Minister Basil Mramba delivered the annual Budget Speech before the national Parliament June 8 in Dodoma. The speech outlines the economic progress during the 2004/05 fiscal year (which ends June 2005) as well as the targets for economic growth in the coming 2005/06 fiscal year. Announcing very few significant changes in this year's budget, Mramba focused the speech on "the achievements of the Third Phase Parliament and its Government," meaning the last ten years under President Mkapa's leadership. The budget reflects a commitment to the status quo, but local businessmen are disappointed in the lack of continued economic reforms. Any significant new direction will be left up to the new administration next year. End summary.

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Economic Performance in 2004/05  
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2. (U) Minister Mramba began his speech by outlining the "profound achievements" of the "Third Phase Government under the leadership of President Benjamin William Mkapa." He focused on Tanzania's steady GDP growth, low inflation, improved revenue collection, and an attractive investment climate. Mramba reported that the Tanzanian economy grew by 6.7 percent in 2005, compared with 5.6 percent in 2004 and that it surpassed the target of 6.5 percent set in last year's budget speech. He reported that inflation decreased from 4.8 percent in March 2004 to 4.1 percent at the end of March 2005, noting that food inflation in particular had decreased. Mramba also noted that improved revenue collection (13 percent of GDP this fiscal year) has helped the government exceed its revenue targets. Still, 41 percent of the annual budget was supported by foreign aid (compared to 45 percent in the previous year).

3. (U) Tanzania's economic growth was driven largely by the modest growth (4.8 percent) in agriculture. Mining was the fastest growing sector, at 15 percent growth, but its contribution to total GDP growth was only 0.3 percent. Construction and manufacturing also led with double digit growth in the last year.

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Goals and Targets for 2005/06  
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4. (U) Mramba stated that the thrust of the budget for 2005/06 is to implement the National Strategy for Growth and Reduction of Poverty. The main economic targets include:

--Attain a real GDP growth rate of 6.9 percent in 2005 and 7.2 percent in 2006. (Note: The government has stated that with a 3 percent population growth rate, GDP growth must approach 10 percent in order to achieve its poverty reduction goals by 2025.)

--Domestic revenue is targeted to reach 14.3 percent of GDP in 2005 and 14.5 percent in 2006.

--An inflation rate of 4 percent by the end of June 2005 and thereafter a rate consistent with that of major trading partners.

--Maintain gross international reserves at a level above seven months of imports of goods and services.

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The Status Quo Budget  
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5. (SBU) Changes announced in Mramba's speech include uncontroversial changes in the minimum wage (to adjust for inflation) and in a few specific tax provisions. No significant new policies or programs were announced. Notably absent from Mramba's speech was mention of the East African Customs Union, any of its controversial tariff rates under review, or how Tanzania plans to use the five-year adjustment period to develop its industrial base.

16. (SBU) Private sector analysis of the 2005/06 budget has characterized it as "status quo" or "no-win no-loss." One analyst said, "At least we know what to expect - not much!" While appreciating the importance of stability in economic policy, many business people feel the government should do more to facilitate economic growth, including stepping up economic reforms. In particular, the private sector has complained that the government has not done enough to develop transport, water, and power infrastructure; provide access to affordable credit; or to stem corruption and bureaucratic intransigence. (Note: A credit guarantee scheme for small and medium enterprises was an important focus of last year's budget speech. No mention was made of its success or failure.)

17. (SBU) World Bank Country Director Judy O'Connor spoke at a private sector gathering after the budget speech. Positive about the new budget and Tanzania's economy in general, O'Connor praised the focus on poverty reduction and the on sustaining a predictable economic policy. She said that Tanzania's macroeconomic stability is just beginning to show microeconomic effects. She said that the small reduction of poverty and Tanzania's growth demonstrate that its economic policies are really working. She urged the GOT to do more to improve social services and to ensure that growth is "shared equitably to ensure prosperity."

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Bottom Line  
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18. (U) The details of the budget continue to be revealed throughout the Parliamentary Budget Session this month as each ministry presents its part of the budget. The bottom line, according to Mramba's speech, is that the GOT plans to spend Tsh 4.176 trillion in 2005/06, funded by Tsh 2.067 trillion in domestic revenue and Tsh 2.109 trillion in external grants and loans, domestic borrowing, and the sale of parastatal shares.

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COMMENT  
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19. (SBU) Comment: Minister Mramba's speech reflects the position of Mkapa's now lame duck administration, focused on legacy rather than future vision. Indeed, the administration can be proud of the dramatic economic reforms of the last decade and its increasing ability to attract foreign aid. However, much progress remains to be made in creating a vibrant market economy and reducing poverty. Tanzania's aid-dependency is not sustainable, as domestic revenue cannot even cover the GOT's recurrent expenditures, let alone its development expenditures. As one analyst put it, Tanzania is borrowing to consume and that cannot last forever. Mramba has left it up to the new administration to figure out how to move Tanzania from aid-dependency to a reasonable level of self-sufficiency. End comment.

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